

Brightfield Group, LLC

**Canadian Cannabis Users React
to the New Recreational Market
2019**



Introduction

Canada's legalization of recreational cannabis marked a major milestone for the global industry. It was the second nation in the world to develop a fully legal and regulated adult-use cannabis program (following Uruguay), and more importantly, given Canada's economic standing, access to capital and large population, the country offered unprecedented prospects for formal market growth.

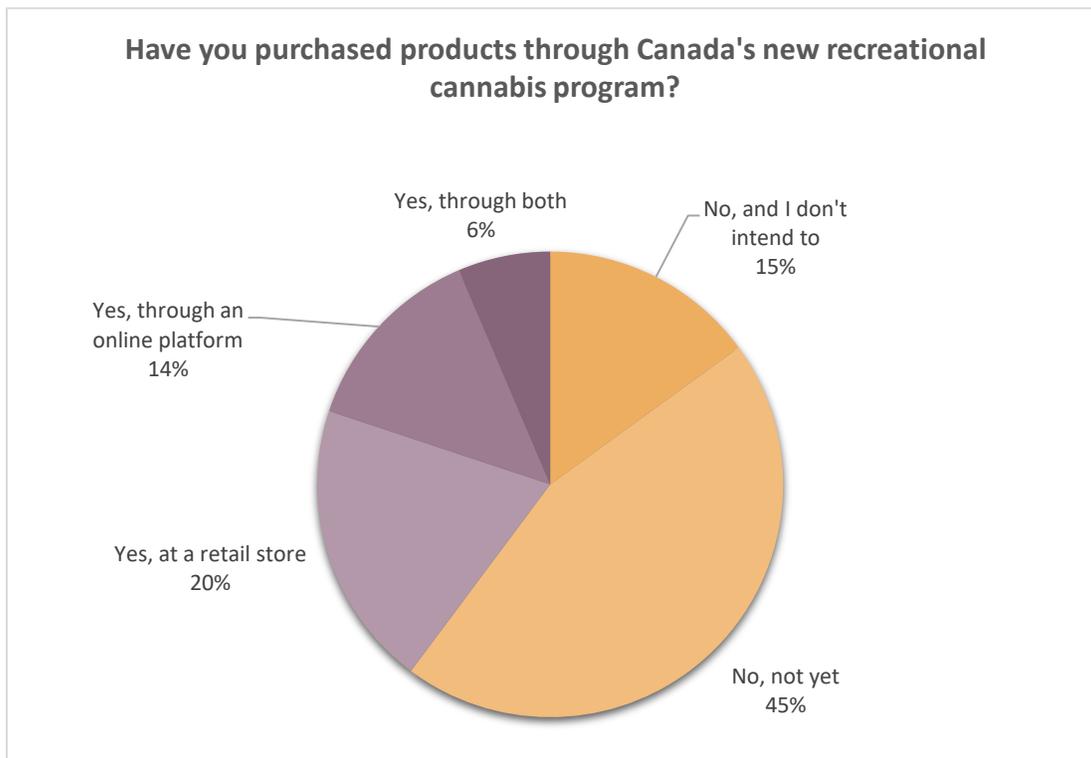
Since the market opened last October, the question on everyone's mind has been: Is Canada's adult-use market living up to all the hype?

The short answer is: Not yet. While there are tremendous opportunities for growth, preliminary data collected by Brightfield Group following the first few months of the program's enactment have demonstrated that Canada still has various challenges to overcome before it can effectively draw in the majority of users. Among Canadian cannabis users surveyed in early 2019, 60% still have not purchased through the adult-use program, though a majority of those would like to do so under the right circumstances. As a result, Brightfield Group estimates that Canada's adult-use cannabis market only brought in a disappointing \$160 million USD in 2018 following its mid-October launch, but we project it to grow to \$5 billion market by 2021, once Canada overcomes obstacles such as poor product quality and availability, allowing investors and companies operating in the space to more effectively and confidently tap into a greater consumer pool.

Below are a series of insights gleaned from cannabis consumers throughout Canada, detailing their reactions to - and interactions with - the formal recreational market, whether they've participated in the program or remain curious onlookers, along with a detailed analysis of the new program's strengths and potential points of improvement.

How much of Canada's cannabis-using population has participated in the program at this point – and how many are still considering it?

While 15% of current cannabis users intend to remain on the black market or stick to their medical cannabis use, and a whopping 45% of current cannabis users have simply never tried to access product through formal recreational channels several months following the program's launch (leaving great room for growth) – about 40% are currently accessing product through the formal recreational market.



What type of people are purchasing through the program?

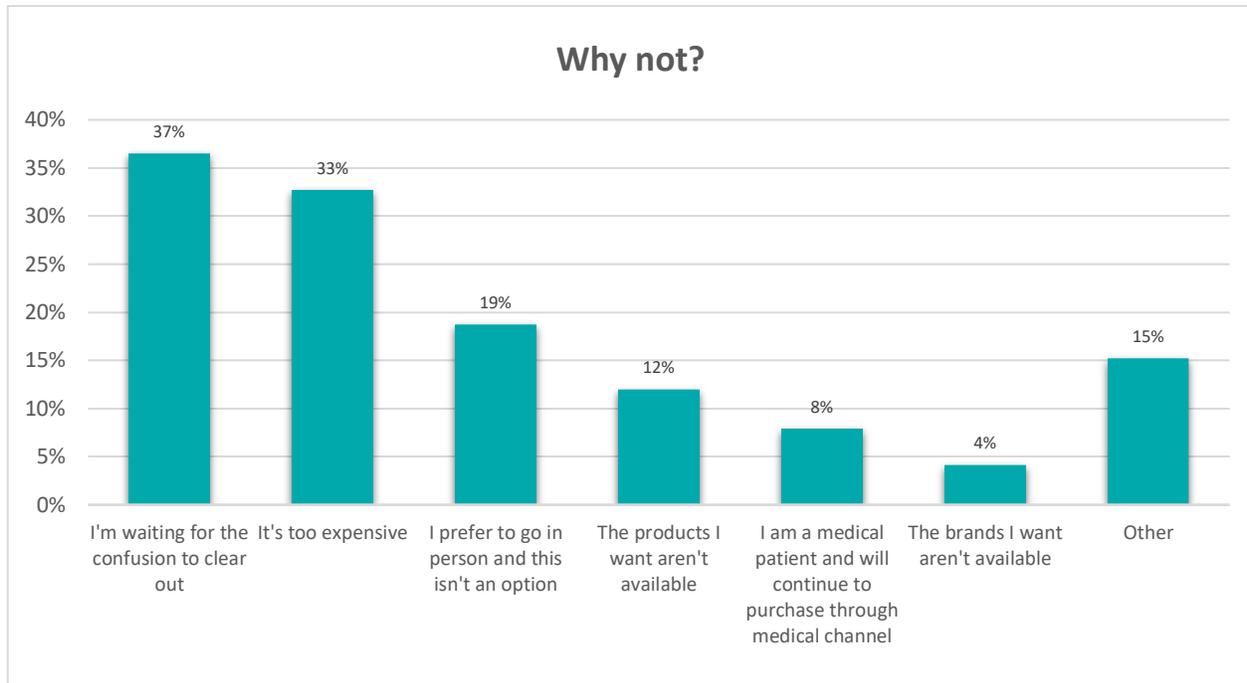
Without popular products to drive in new and diverse consumer groups, such as women and Baby Boomers - as has been the case among many U.S. cannabis retailers - Canadian recreational shops have been limited mostly to traditional cannabis consumers fitting the “stoner” profile – namely those armed with the understanding and confidence to use flower and oils: young, frequent users – often men – with disposable incomes.

Those purchasing on today’s market do in fact skew male (53% of rec market consumers, versus 47% of general cannabis users), are younger (only 36% are over 40), use more frequently than general cannabis users (nearly two-thirds use marijuana 2+ days per week) and have used throughout their lives. They have comfortable incomes, with 40% making \$75K+, and are somewhat more politically active than their counterparts. Given their comfort with the product, these users prefer to spend more and support a legal and regulated system rather than continue purchasing through the black market, and are making the switch.

Recreational Consumers

- Largest cohort is between ages 26-35 (Millennials), who make up 34% of users. Roughly 13% are in the 56-79 age group.
- Most are married or living with a partner (58%), with 35% single. Slightly more than half have children in the home.
- Users were quite wealthy on the whole, with 40% making \$75K+ per year, and only 18% making less than \$30K.
- Nearly 40% had a Bachelor’s degree or beyond, while 25% had a high school diploma.
- Over 38% were affiliated with the Liberal Party, followed by 22% who affiliated with the Conservative Party of Canada, and 15% from the New Democratic Party.
- Nearly two-thirds of those who purchased through the rec program were regular users of THC products (2+ days per week), and nearly half were regular CBD product users. 99% had used THC products prior, and 96% had used CBD products prior.

But why aren't more people purchasing through the much-hyped adult-use market?



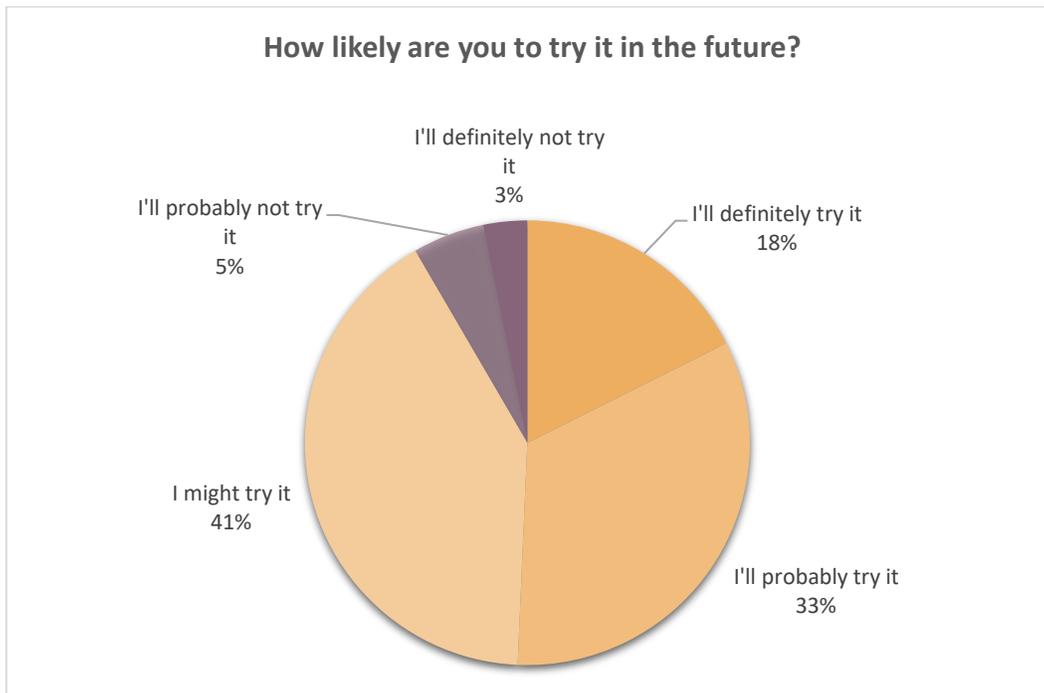
Several factors are playing into the lack of formal rec market participation: primarily, confusion, cost, and a lack of brick-and-mortar access and product availability. None of these responses is particularly shocking – this is the first roll-out of a recreational market of this scale in the world, it was bound to be confusing and have some significant wrinkles to iron out. Competing with the black market over cost continues to be an issue in recreational and medical cannabis markets around the world, as overhead costs for formal market operation inflate prices and make competing effectively challenging. However, this problem has been exacerbated by the major supply issues that Canada has been experiencing since the rec market opened, as well as provincial control over pricing in some cases (e.g. Quebec, Ontario). Furthermore, licensing delays and barriers have limited available sales channels in most provinces. Lack of access is a concern that should begin to sort itself out as more private retailers come online, particularly in populous Ontario and BC, and as supply issues are resolved, allowing stores to be open more often and have sufficient product availability to merit a visit.

Other elements mentioned were poor quality products and that the recreational market could not effectively compete with home grows. The least-mentioned factors limiting rec market participation were exclusive medical market participation, and tellingly, that consumers could not access the brands they like through rec channels. Only 4% of those not consuming recreational market products were influenced by brand availability – showing a tremendous lack of brand loyalty in a country that has had a number of major brands available for years (through licensed producers on the medical market), several of which should have broad recognition and should have established a loyal following and strong reputations at this point.

This speaks to a lack of differentiation among competitors – large and small – on the Canadian cannabis market. This is not surprising considering the restrictive packaging requirements placed on manufacturers, which have limited their ability to create innovative packaging (essentially, at this point most product is sold in plain, generic jars, droppers and cough syrup bottles), as well as the extremely limited menu of products allowed on the market (flower/oils/medicinals) which make it difficult to develop unique flavors, delivery systems, or other qualities that might help a brand set itself apart from competitors. Brand recognition will continue to be a challenge for players in the Canadian market, and this should be a wake-up call to market participants who are not setting their sites on brand development – especially as edibles and topicals are set to come online in the coming months and will allow for a great deal of additional innovation and differentiation.

Will any of these non-participants be joining the recreational market?

Despite that most Canadian cannabis consumers have not yet bought cannabis through the new recreational program, not all hope is lost; 73% of those who haven't bought through rec program yet are still open to the idea of giving it a try in the future. Among them, greater than half are probably or definitely intending to purchase through the rec market at some point, and another 42% "might" do so. This essentially means that while a handful of current cannabis consumers have no interest in the formal market, there is a great deal of potential among the majority. To tap into this potential, the Canadian market – including regulators, cultivators, manufacturers, and retailers – must effectively address the points of concern listed above, particularly accessibility.



How do companies compete for current and future recreational consumers?

Based on consumer feedback, the largest challenges formal market users have faced with the recreational program across provinces thus far have been retail store accessibility and product availability. Beyond this, British Columbia, Alberta, Saskatchewan and NL users in particular have not been satisfied with pricing. While it is up to provincial regulators to address some of these issues, manufacturers and retailers should bear these concerns in mind moving forward, in order to be prepared to address them where possible (e.g. when considering store location, price points, number of units to stock) to maintain and bring in more clients.

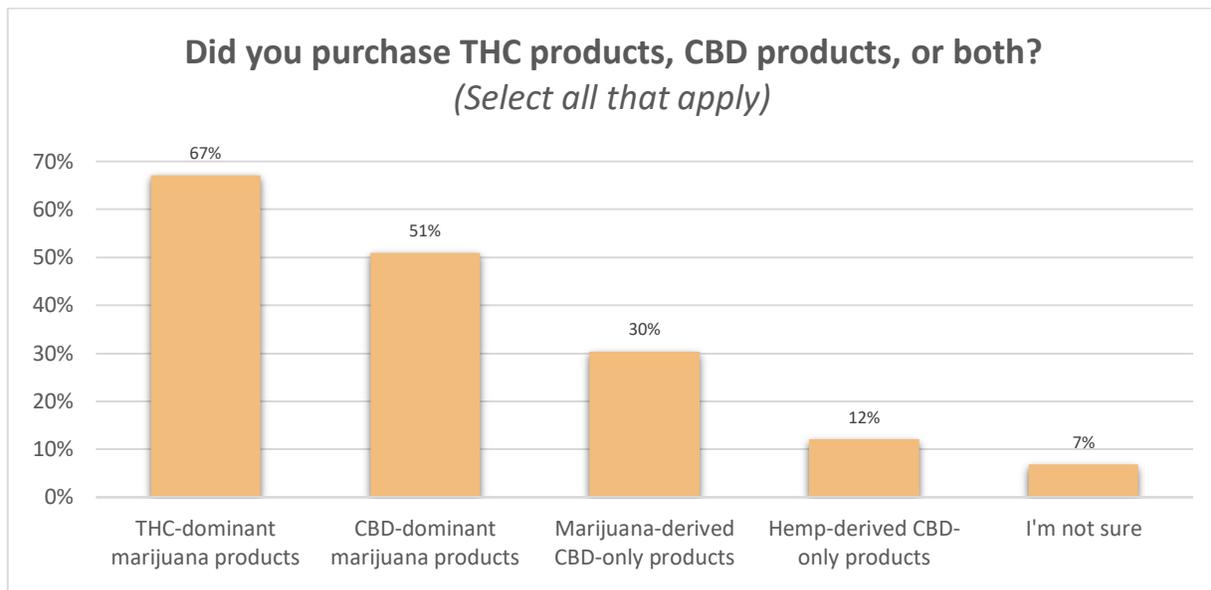
How do you feel about the following aspects of the recreational use program and regulations in your province?

Product pricing	★★★★☆
Product variety	★★★★☆
Product availability	★★★★☆
User-friendliness of online sales platform	★★★★☆
Shipping speed	★★★★☆
Retail store accessibility (distance from you)	★★★★☆
Ease of age verification process	★★★★☆

There are a number of elements of the new recreational program that current and future companies vying for customer attention should uphold as they are keeping customers content. Two primary aspects satisfying customers are the ease of the age verification process and user-friendliness of online sales platforms (though Ontario struggled with the latter). In Quebec and BC, users appeared to be especially happy with product shipping speed. Alberta is one of the larger provinces that had greater satisfaction when it came to retail store accessibility. In the smaller provinces and territories, users were more satisfied with both shipping speed and retail store accessibility (particularly in Nova Scotia and New Brunswick).

Why is product availability such an issue?

Beyond various delays caused by regulatory hiccups – particularly at the provincial level – as well as an onslaught of new customers, an unexpected demand for CBD products has helped to contribute to the country’s massive supply shortages.



Though recreational users favor products that contain THC, with over two-thirds of purchasing THC-dominant products, approximately half purchased CBD-dominant products and over one-third purchased CBD-only products (30.4% marijuana-derived, 12.1% hemp-derived). CBD made a surprisingly strong entry on to the rec scene, with many seeking CBD-only products out for their medical applications and lack of associated “high”. Manufacturers and retailers did not anticipate such an influx of CBD-dominant product users, and are now ramping up cultivation and stocking more product in order to better address the needs of CBD consumers.

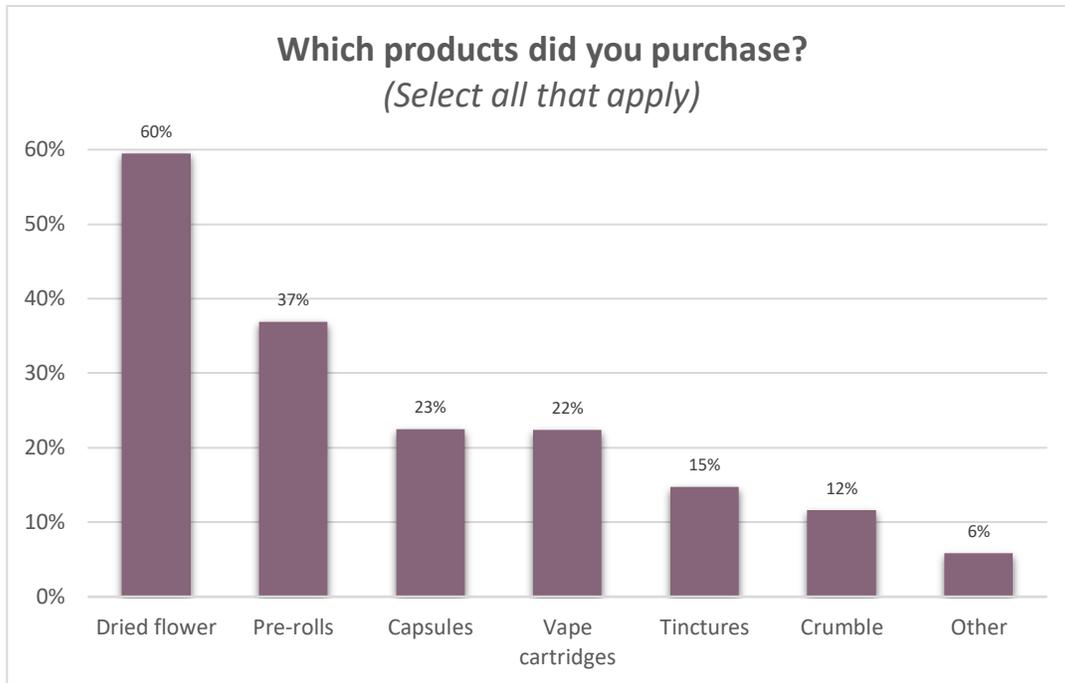
Now that we've established that there is demand for CBD, what types of consumers are purchasing CBD-only products through the recreational market?

CBD-only Product Consumers

- CBD users are more varied in age than the average adult-use consumer.
- They are more likely to be bachelors – with less than half (46%) married, and 37% single.
- CBD users have more formal education than cannabis users in general, with over half carrying a Bachelor's degree or beyond (vs 40% among cannabis users), and 19% with a high school diploma (vs 25%).
- Politically, CBD users lean farther left than cannabis users overall – with only 19% affiliated with the Conservative Party, and 41% with the Liberal Party.

Though the average CBD-only purchaser is somewhat wealthier and more educated than the traditional user purchasing through the recreational market, the two consumer groups share a majority of traits. Surprisingly, they even show few differences in THC use, demonstrating that most users purchase a full menu of products in search of “entourage effects” and/or because they look to different cannabinoids for different occasions of use.

Circling back to the general recreational market - what are the most popular products on shelves today?

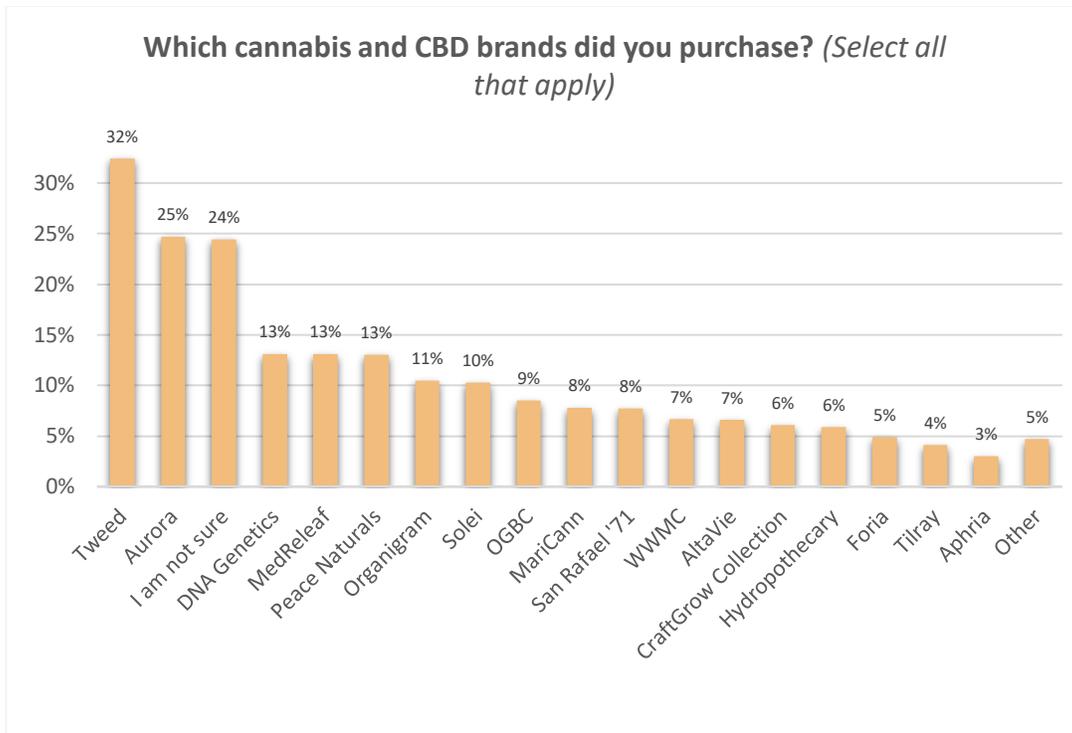


As is typically the case in new markets, especially those with limited product selection, flower has garnered by far the most interest among adult-use consumers. Early-movers tend to be traditional users highly familiar with this product type (indeed the case on Canada's rec market), and flower's reasonably low price point also drives its sales when users are not yet comfortable or familiar with product quality.

However, as markets and consumer demands evolve, typically sales begin to veer away from flower and toward other products such as edibles and concentrates, which can be tailored to a broader range of consumers. In the case of Canada, the beginning of this evolution may be delayed until after regulatory authorities permit the sales of product types beyond flower and oils/medicinals, likely in the second half of 2019.

And which companies are making a name for themselves during these initial months?

Very few.



Tweed-branded products had the greatest following among Canadian cannabis consumers, with 32.4% of consumers having purchased its goods. **Aurora** was the second-runner, with nearly 25% of cannabis consumers having purchased the brand through the new recreational market. However, no other recreational cannabis brand was patronized by more than 13% of customers (tied among DNA Genetics, MedReleaf and Peace Naturals), and nearly one-fourth of the respondents were not even sure what brands they had purchased.

Convenience was likely also a factor in purchasing decisions, given that a number of products manufactured by sizeable LPs may be widely (or even exclusively) available through some vendors or platforms. When this is the case, customers may simply be purchasing a brand because it represents the majority of the product options.

While brand loyalty and recognition are still quite limited across the Canadian market, these loyalties will be better shaped as the market continues to evolve and customers repeat business.

About Brightfield Group

Brightfield Group is an analytics and research firm for the cannabis and CBD industries.

Our dedicated team of analysts, data scientists and researchers have backgrounds in cognitive science, machine learning, predictive modeling, and multi-faceted research methodologies. Our leadership has extensive experience in mainstream CPG and emerging market research.

We are proud to say our expertise in the rapidly growing cannabis and CBD markets is amongst the most comprehensive; enabling brands to make a long-term impact.

To learn more about our data and research solutions, please [contact us](#).